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Testimony

Before the

Subcommittee on Commerce, Consumer, and Monetary Affairs,
Committee on Government Operations,
House of Representatives

For Release
On Delivery
Expected at
9:30 a.m., EST
Wednesday,
March 4, 1992

EXPORT PROMOTION

U.S. Programs Lack
Coherence

Statement of Allan I. Mendelowitz, Director
International Trade and Finance Issues
General Government Division



19970211 044

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss ways in which federal export promotion programs can be improved. My testimony is based on our past work and our recently released report, prepared for this committee, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness.¹ At your request, I will also discuss issues related to the competitiveness of U.S. companies in Japan.

BACKGROUND

Ten federal government agencies currently offer programs to help businesses begin exporting or expand their exports. Among the agencies with more significant programs are the Departments of Agriculture and Commerce, and the Export-Import Bank.

Export promotion programs involve offering business counseling, training, and representational assistance as well as providing market research information, trade fair opportunities, and export financing assistance. Alone, these programs cannot produce a substantial change in the U.S. trade balance, because the trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners. However, these programs can play a useful role in stimulating exports of U.S. products in economic sectors in which U.S. goods are competitive. For example, government export promotion programs can be particularly helpful in the following situations:

- when U. S. firms lack export awareness because markets have failed to give the right information to producers who otherwise would export;
- when U.S. businesses are aware of export opportunities but need additional technical assistance to consummate export sales;
- when U.S. firms need representational assistance from the U.S. government in opening doors overseas; and
- when U.S. businesses need competitive financing, loan guarantees, or insurance to close an export sale.

To further the goal of improving the government export promotion efforts, in May 1990 the President established an interagency Trade Promotion Coordinating Committee to streamline the government's decentralized approach to export promotion. The

(GAO/NSIAD-92-49, Jan. 10, 1992).

committee is chaired by the Secretary of Commerce and includes representatives from 17 other federal agencies.

FEDERAL PROGRAMS LACK COHERENT FUNDING

One of our major concerns with federal export promotion programs is how their resource levels are determined. Although the federal government devotes significant resources to export promotion programs, the programs are not funded on the basis of any governmentwide strategy or priorities. Consequently, taxpayers do not have reasonable assurances that the government's resources are being effectively used to emphasize sectors and programs with the highest potential return.

In fiscal year 1991, the government spent about \$2.7 billion on its export promotion programs and provided about \$12.8 billion in export loans and loan guarantees and about \$8.6 billion in export credit insurance.

One consequence of the lack of a governmentwide strategy has been that most of the spending on export promotion has gone to one agency--the Department of Agriculture. This agency spends the majority of funds even though agricultural products only constitute about 10 percent of total U.S. exports. In fiscal year 1991, Agriculture spent about \$2 billion on export promotion, about 74 percent of total outlays, and issued about \$5.7 billion in loans and loan guarantees, approximately 45 percent of total export loans and loan guarantees.

One Agriculture program, the Market Promotion Program (formerly called the Targeted Export Assistance Program), received more funds in fiscal year 1991--\$200 million--than was spent by the Commerce Department on all its export promotion programs put together. Over a third of the money spent under Agriculture's Market Promotion Program is used to directly support the overseas marketing programs of profitable, established U.S. firms.² In some cases these firms are large multinational firms with broad experience doing business in other countries.

For example, from 1989 to 1991 the following companies were among the largest brand name recipients of taxpayer funds under the Market Promotion Program to promote overseas sales of their products:

- Blue Diamond received \$22.7 million to promote the sale of walnuts and almonds.

²See Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

- Sunsweet Growers received \$10.5 million to promote the sale of prunes.
- Sun-Maid received \$9.4 million to promote the sale of raisins.
- Gallo received \$8.1 million to promote the sale of wine.
- M&M Mars received \$2.8 million to promote the sale of its products.
- Uncle Ben's received \$2.4 million to promote the sale of rice.
- McDonalds received \$1.2 million to promote the sale of poultry and eggs.

In comparison, in fiscal year 1991 the Department of Commerce spent about \$91 million to support exports of non-agriculture products through its U.S. and Foreign Commercial Service (US&FCS). This money was spread among a vast network of 131 posts in 67 countries and 47 domestic offices. As a consequence of the resources being spread so thin, the US&FCS was only able to devote \$4.3 million to support the work of its overseas commercial staff in Japan, one of the United States's most important markets abroad. However, Agriculture budgeted \$63.9 million for Market Promotion Program activities in Japan in the same year.

Furthermore, the US&FCS's activities have been hampered recently by a \$2.3 million budget cut. Although the size of the cut may seem small, it directly affects overseas posts' operations because it has caused the paring of posts' funds that are used to provide U.S. businesses with direct assistance. These funds include the money used to pay for faxes, to respond to overseas phone calls, and to purchase market research publications.

One obvious implication of the governmentwide funding issue is that much more might be achieved with existing resources if they were allocated according to national priorities and were administered by a more rational agency structure. This is not now being achieved, with the export promotion effort spread amongst separate programs with separate budgets in separate agencies that are not integrated under any unifying strategy or rationale.

Any effort by the Congress to try to design and fund export promotion programs from a broad governmentwide perspective will require the cooperative efforts of a large number of authorizing and appropriations committees. For example, 5 different appropriations subcommittees in each house of the Congress

independently appropriate funds for export promotion.

GOVERNMENTWIDE STRATEGY NEEDED

The government has recently taken several steps to better focus and coordinate its export promotion programs. For example, the Trade Promotion Coordinating Committee has created a trade information center with a toll-free phone number and an interagency calendar of upcoming federal government trade promotion events. Yet these represent modest successes. The committee has not yet addressed the issue of how to unify and streamline the government's export promotion programs. Moreover, the committee lacks permanent status and cannot reallocate resources among the government agencies.

On an individual agency level, the Commerce Department's US&FCS has recently undertaken a strategic review of its export promotion programs. To our knowledge, this review is the first systematic effort by a government agency to identify the needs of the recipients of its export promotion services and tailor its services to meet those needs.

As a result of the strategic review, US&FCS plans to emphasize those services found to be most effective and de-emphasize or eliminate those found to be least effective. While the full benefits of the strategic review will only be realized when it is fully implemented in the field, we believe that the US&FCS's strategic review can serve as a model for other units in Commerce and other federal agencies on how to better focus and improve their export promotion programs.

Yet the government cannot devise a coherent export promotion strategy one agency at a time. In our January 1992 report, we suggest that Congress consider requiring that programs be integrated into a governmentwide strategic plan and funded in a manner consistent with the emphasis given them under the plan.

We also recommended that the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, work with other member agencies and the director of the Office of Management and Budget to (1) develop a governmentwide strategic plan for carrying out federal export promotion programs and (2) ensure that the budget requests for these programs are consistent with their relative strategic importance.

THE QUESTION OF U.S. COMPETITIVENESS

What else can be done to enhance U.S. competitiveness? The President's Council on Competitiveness has defined an economically competitive country as one that can sell its products in international markets and raise the standard of living of its people. In other words, economic competitiveness

deals with the most fundamental of concerns--the economic well-being of a country's citizens. At the broadest level we should be very concerned over the issue of U.S. competitiveness.

To enhance U.S. competitiveness the government and private sector must do a number of things right. What has to be done must occur at the macroeconomic level, at the government level in key program areas, and at the private sector level.

Macroeconomic policy plays a central role in affecting the competitiveness of a country. For businesses considering investments in new plant and equipment, the cost of capital is a critical variable that macroeconomic policy affects. The cost of capital dictates how a business views investment that is expected to yield a profit sometime in the future. This concern applies to investment in physical assets, such as new equipment, as well as to investment in research and development.

A number of government programs are also important in determining the ability of an economy to be competitive. These include programs that affect the nation's infrastructure and the health and capability of the labor force. A well-developed and maintained infrastructure is an important ingredient in a country's ability to compete. In addition, a healthy and educated labor force is a prerequisite for a competitive economy. A labor force that is not well educated cannot be competitive. A health care system that does not yield benefits commensurate with its costs detracts from the nation's ability to compete.

The government sets the stage for a competitive economy but, even if the government acts responsibly and does everything right, a country cannot be competitive if the private sector does not do its part. Ultimately, the competitive strength of a country is determined by how well the private sector manages itself.

The decade of the 1980s was a difficult one for U.S. business. The rules of the game underwent a fundamental change as the U.S. economy became internationalized. As a result of this internationalization, imported products began to take ever larger market shares in more and more products. Being competitive has now come to mean being as good as the "best in class" producer, wherever in the world that company may be. Whether a firm chooses to sell in Paris or only Peoria, it must be competitive by world-class standards in order to be successful, and if a firm does not meet and maintain these standards it will not survive.

The importance of being a "best in class" producer is most clearly illustrated by the success some U.S. companies have had in Japan. Despite formidable obstacles to entering and expanding into that market, some U.S. firms have met this challenge and are now running large successful operations in Japan.

In examining how the companies were able to successfully enter the Japanese market, three key factors are apparent.

1. A company must be well-managed. It is good management that enables a company to develop, produce, and sell high quality products at competitive prices. Troubled companies that have improved their management practices, such as by successfully adopting the total quality management model, have become world-class competitors. In contrast, companies whose management systems have lagged behind those of foreign competitors have come under severe pressure, not only in foreign markets, but in the United States as well.

2. A company has to have patience and make a long term commitment to the Japanese market. Immediate results should not be expected; it can take years to get established and turn a profit. Those U.S. companies that have been most successful in Japan have said that they entered the Japanese market with the expectation that there would be a number of years of losses. They said that they viewed these early losses as part of the investment necessary to get established and known in the Japanese market.

3. However, even a company that is well managed, selling world class products, and making a sustained effort to succeed in Japan may not succeed if it encounters significant formal or informal barriers. In such circumstances, help from the U.S. government in removing or overcoming these barriers becomes an essential ingredient in the commercial success of a firm.

The case history of Motorola's successes in the Japanese market illustrates the points discussed above. Motorola in the 1980s underwent a transformation in the management of the company that enabled it to substantially improve the quality of its products and service to its customers, and reduce the cost of operations. This transformation gained public recognition when Motorola became one of the first winners of the Malcolm Baldrige Award, the U.S. national award for quality. Motorola decided to make an effort to succeed in the Japanese market in a major way over a decade ago. It established its presence in Japan with the full knowledge that there would be losses for a number of years as it worked to become more established. When Motorola encountered barriers on a number of occasions, it turned to the U.S. government for help in getting them removed. The result of all of the above -- good management, a long term approach to cracking the Japanese market, and U.S. government help in dealing with barriers -- is that Motorola's sales in Japan last year were about \$1 billion. There are other companies for which similar success stories can be recounted and whose sales are now in the billion dollar range.

The situation with respect to automobiles is very different.

Trade in autos and auto parts accounts for nearly three-quarters of the \$41-billion trade deficit with Japan. In 1990, U.S. exports to Japan of motor vehicles and automotive parts were \$1.8 billion compared to imports from Japan of \$32.1 billion. The "Big Three" U.S. auto companies have lost a third of the U.S. market to Japanese auto manufacturers and have had very little success to date selling to the Japanese.

Historically trade barriers played an important role in explaining these results. However, the current competitive performance of the best Japanese automobile companies results primarily from their management practices. U.S. companies have lagged behind the best of their Japanese competition in product quality and manufacturing efficiency. Even if all Japanese trade barriers are removed, only companies that are truly "best in class" competitors will be able to exploit the opportunities that are presented.

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In conclusion, we believe that the federal government can do a better job in helping companies that are competitive enter world markets by better targeting the funds devoted to export promotion programs. However, it is not within the power of the U.S. government to turn individual companies into world-class competitors--only the managers of the firms themselves have that capability. Some U.S. firms in Japan have demonstrated that it can be done. That is the message that must get across. The government can help, but only those companies that do what they must do to make themselves world class competitors.

Mr. Chairman, this concludes my prepared statement. I will be happy to try to respond to any questions that you or other Members of the Subcommittee may have.

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